
City Manager's Budget Message

Fiscal Year 2016-2017

To: The Honorable Mayor and Members of City Council

Date: April 11, 2016

This annual budget is balanced and submitted in compliance with the North Carolina General Statutes 159 and the Local Government Budget and Fiscal Control Act. Implementation strategies were created by the proposed budget appropriations for projects selected by City Council. In addition, the adopted Mission Statement provided an overview for the city staff to be mindful of in developing the budget for City Council consideration. Three (3) general sections are contained in this budget. Financial documentation and narrative descriptions of the programs and services are contained in this section. The narrative portions of this section are provided in an attempt to help explain the purpose and function of the various departments and programs in order to better educate the reader about city services. Financial summaries, as well as line item details, are also given for the reader to review. The second section is a fee manual that describes the user fees in an attempt to recover some or all of the cost of services direct beneficiaries of the services, rather than the taxpayers. The third section contains information on the fifteen (15) General Fund and five (5) Enterprise Fund expansions proposed by departments and outside agencies. These are new and different program activities that expand the current level of services to the City of Washington citizens and taxpayers or requests from outside agencies for funding above the level provided to them by the City in the previous fiscal years.

GOALS

Our budget is a document containing projects and services paid for by tax dollars and other revenue sources to provide those essential public services granted by the enabling legislation in North Carolina for public purposes. Those services directed by City Council during the budget process and included in the recommended budget where possible are:

- Minimize short-term financing for capital projects and instead use a “pay as you go” financing when appropriate, and;
- Create an environment for the organization where efforts to “spend down” during the fiscal year are discouraged by management, and;
- Provide for analysis of general government cost centers to identify where tax dollars are being spent for what services, and;
- Continue to rely on financial plans and recognized systems in the preparation of the budget, and;

- Provide conservative estimates for revenues and expenditures to avoid performance expectations that are unrealistic, and;
- General fund dollars and enterprise funds are to be reviewed to determine if adjustments are needed to be made in order to more appropriately recover the cost associated with individual programs or services and thus reduce the need of general fund dollars for those operations.

The financial team for the city prepared this budget to meet these goals where ever possible. The propose FY 2016/17 budget maintains all City programs and services as directed by City Council.

However, the tax rate is recommended to increase by 2.0 cents per \$100 valuation. This is a 4% increase in the tax rate and moves the tax rate from 50 cents to 52 cents per \$100. The increase in the tax rate will be dedicated towards a new Police Station. The recommended 2.0 cent tax increase is equivalent to an additional \$20.00 in taxes on a home valued at \$100,000. The recommended budget also increases certain fees in the general fund and rates in the enterprise funds based on the review requested by City Council. On the annual budget process, it is imperative.

OVERVIEW OF THE BUDGET

The fiscal year for all municipalities in North Carolina begins on July 1st and ends on June 30th. The budget is divided into two separate categories, one for revenues collected and the other for services delivered.

- General Fund-this fund is typical government fund, where all taxes and some “user” fees and intergovernmental transfers are used to provide basic governmental services, such as: garbage collection, street maintenance, fire and police protection, parks and recreation, library services, land use controls (zoning, subdivision, historic preservation) and administration.
- Enterprise Funds-these funds are separate “self-supporting” dollars, commonly including all utility services and other functions where taxes are not generally used in its operations. The enterprise funds for the city are as follows:
 - Airport
 - Cemetery
 - Electric
 - Sewer
 - Solid Waste
 - Storm Water Management Fund
 - Water
- Trust Funds-these funds are primarily received from interest proceeds from investments maintained by the City for specific purposes, such as Cemetery and Library operations.

- Grant Funds-these dollars are restricted in their use and are typically used for ongoing projects. These projects are usually funded by grants from outside agencies and are short term operating expenditures. A budget ordinance is adopted for grant projects and are considered “active” until the close-out documentation is completed.
- Special Revenue Funds-these funds are restricted in purpose and designated by City Council and include such funds as a capital reserve fund.
- Capital Project Funds-these funds are similar to grant funds in that they are restricted for specific uses. They are normally used for specific capital improvement projects and the completion date can span over several budget years.
- Internal Service Funds-these funds are utilized by the City in managing services across the entire organization. An example of this fund is the City’s self-insured workers’ compensation program.

GENERAL FUND

The recommended General Fund budget for FY 16/17 is \$15,104,301. This amount \$192,515 or 1.3% is higher than last year. The reason for the increase is primarily associated with: the \$171,854 funding for a new Police Station, and \$73,799 to fund a COLA for our employees.

REVENUES

The recommended budget increased the ad valorem tax rate by \$.02 to \$.52 for each \$100 of assessed property valuation. The tax increase is to be used solely for the land acquisition and construction of a new Police Station. After one year the Police Station Capital Project Fund will have a balance of \$1.1 million and the \$.02 will service \$2.2 million of additional debt, at 15 years market interest rates. The proposed tax rate continues to include \$0.0198 designated for the Public Safety Capital Reserve Fund to service the debt of Fire Station #2.

Ad valorem taxes are projected to be 3% higher than the prior year due to the recommended tax increase for the proposed new Police Station.

Other Taxes and Licenses as a whole are projected to increase by approximately 4%. Sales tax revenues are projected to increase due to tax reform changes at the State level and local occupancy tax revenues are also trending upward. However the occupancy tax revenue is a pass through that goes to the Tourism Development Authority, minus a 3% administrative fee from the city, and given the fact that the continued loss of the privilege license tax proceeds keeps this revenue category generally flat.

Unrestricted Intergovernmental revenues are projected to increase by 8%, largely due to the utility franchise tax.

Permit and Fee Revenues are projected to be flat due to the continued slow recover of residential and commercial industries in Washington.

Restricted Intergovernmental revenues are projected to decrease by 13% largely due to the \$100,000 for the library contribution from the county that never materialized. However the revenue line item in this category is projected to be lower except revenue from the EMS contract, one with Beaufort County and the other Washington Park.

Sales and Services revenues are projected to increase 5% due to EMS collections.

Investment earning are projected to decrease by 8% due to the continued low interest rates in the investment market.

Miscellaneous revenues are projected to decrease by 19% based on FY16/17 current needs.

Transfers from revenues have a slight increase. It was the desire of City Council to again reduce the amount of the Electric Fund transfer this year, however due to substantial recurring loss of revenue from other sources, this transfer is recommended to increase to meet our obligations.

Administrative charges are recommended to increase by \$140,925. These charges are allocated to other funds in order to help pay for their share of resources use in the General Fund. Each Fund is assessed base on a specific metric that attempts to most accurately reflect its burden on the General Fund. The main driver for the projected increase is the sales and services of the Electric Fund. In addition, an administrative charge to the TDA and Civic Center has been introduced this year to recover our administrative support cost.

The recommended budget appropriates zero dollars in General Fund Balance or zero dollars of General Fund expenditures.

EXPENDITURES

Administrative Cost Centers-Expenditures in these cost centers have increase by \$217,386. The majority of the increases is due to capital expenses for \$63,296 contingency, \$73,779 COLA, and \$73,080 Municipal Building capital and maintenance. We collectively have to make a decision, this year on the future of the Municipal Building.

Other Cost Centers-Expenditures in these cost centers have increased. Both the Airport and Cemetery Funds will be increased to meet the anticipated expenses for operation and maintenance.

Public Safety Cost Centers-Expenditures have increased by \$241,534 or 3.6%. The largest increase in this category is related to \$370,181 Fire Department contribution to the vehicle replacement fund.

Cultural and Leisure Cost Center-Expenditures decreased over all by \$14,634 or .06%. The main driver of this decrease is associated with moving the Civic Center subsidy, maintenance, and insurance to Economic Development.

Outside Agencies-The funding for all outside agencies was held flat in the recommended budget. The City Council followed their past recommendations by reducing the amounts for each agency by 10% with the exception of the Zion Shelter.

ENTERPRISE FUNDS

Airport Fund-The airport recommended budget is \$692,902 whereas last year budget was \$506,589 and includes the following significant items:

- A transfer will be made from the General Fund in the amount of \$118,656 whereas last year had no transfer from the General Fund to operate.
- Airport subsidy has been moved to Economic Development

Cemetery Fund-The Cemetery Fund recommended budget is \$307,428 which is \$36,136 less than the previous year and includes the following significant items:

- The cemetery subsidy has been funded with a \$1/account from the Electric Fund which introduces a “pay as you go” concept. Thus, no new bank financing would be required.
- A fee schedule change has been recommended to increase the cemetery lot fee by 5% and the payment will be made to the cemetery fund instead of the perpetual care fund.

Electric Fund-The recommended budget is \$34,824,386 as opposed to \$38,123,992 last year which is less than \$3,229,606 or 8.7% less than the prior year.

- No wholesale rate increase for this year, however a 6% reduction in residential, small general service, and church rates did occur last year and has continued in this budget cycle.
- An Electric transfer to the General Fund did occur and increased to \$908,723, whereas, last year the amount was \$654,281, which represents a \$254,442 increase over last year.
- Load management will reflect a change in the fee schedule for the up-coming years.
- City street lights has appeared in the Public Works budget but has now been transferred over to the Electric Fund.
- Tree trimming activities have been consolidated into the Electric Fund and will reflect an increase in funding.

Water Fund-The Water Fund Budget is \$3,158,780 for this year as opposed to last year which was \$3,150,629 and represents an \$8,151 increase in this year budget.

- We are recommending a 0.5% increase in the water rates to more accurately reflect the operating and maintenance cost for our system. This small percentage should narrow the gap on our expenses.

Sewer Fund-The Sewer Fund budget is \$3,269,132 for this year whereas last year we had an approved amount for \$3,146,891. Thus, the amount increased in this budget is \$122,241.

- A 2% increase is recommended to provide for the operation and maintenance for the sewer system.
- Sewer bonds were paid off last year and the only remaining expense is the State Revolving Loan debt program. Debt service is down to \$297,212/yr.

- Storm Water Management Fund recommended budget is \$894,003 for this year. Last year appropriation was \$772,761. This represents an increase of \$121,242. We completed the rate study and our recommendation is to increase the residential property by an additional \$.50 for all residential customers and a 50% increase in the commercial charge. Currently, our revenue is only paying down the debt service on the loan of \$500,751. Establishing the increase will allow the city to continue small storm water projects throughout the city.

Solid Waste Fund-The Solid Waste Fund is budgeted at \$1,279,800 whereas last year the budgeted amount was \$1,300,300 which represents a decrease in the amount of \$20,500. The dollar a month increase from last year appears to have closed the gap. In addition, a position was eliminated because of retirement.

SUMMARY

During this budget process, the important message we are sending to our citizens and local businesses is the city staff appreciates them and we try every day to achieve our mission objective by providing municipal services at a reasonable price. In every organization there are challenges and for us, because we represent a very diverse work group, it has become even more important for us to maintain our skill levels along with our compensation plan. It is important that our salary compensation plan be updated and we need to begin that discussion on how to implement the plan this fiscal year. In addition, we need to seek funding to implement the plan successfully. Thus, our revenues must be increased or our service levels need to be reduced.

Matt Rauschenbach, our Chief Financial Officer, and Tammy Swindell, our new Assistant Finance Director, along with the Finance team did an excellent job this year in providing a functional document. We have changed the budget model this year for City Council to review, comment and make revisions, if necessary.

Once again our department managers did an outstanding job in analyzing and compiling the budget for this year and have completed their assignment in a timely manner. Our staff has seen three (3) department managers retire and replaced, and one organization structure change in Parks and Recreation. However, we have continued to provide those municipal services at the same level, as in the past, even though changes have occurred. Our work force are dedicated individuals and function well in difficult times. They continue to provide those necessary services at a reasonable cost. Therefore, I am very proud to be a part of their team and submit to you on their behalf a balanced budget.

Respectfully submitted,

Bobby E. Roberson,

City Manager